May 9, 2016

Apartment Rents Up; Vacancies Down

After showing signs of leveling off late last year, metro Denver's apartment market started to tighten again in the first quarter, according the Apartment Association of Metro Denver. "Rent going up again during a traditionally weak quarter is surprising. We know that new units are dragging up the prices here," said Ron Throupe, a University of Denver associate professor and co-author of the Metro Denver Vacancy & Rent Report. The metro Denver apartment vacancy rate dropped to 6.1 percent in the first quarter, down from 6.8 percent in the fourth, and higher than the 4.9 percent rate seen a year earlier, according to a report released Monday. The median apartment rent in metro Denver stood at $1,274.34 in the first quarter, up from $1,244.66 in the previous quarter and $1,158.26 in the same period a year earlier. The quarter-over-quarter increase in median rents was 2 percent, while the year-over-year increase was 10 percent. The quarterly increase reversed a decline in rents measured between the fourth and third quarters. The average rent for an apartment in the metro area rose to $1,315.39 versus $1,291.89 in the fourth quarter and $1,203.87 in the first quarter of 2015. The report estimates 1,809 new units were completed and that an unusually high 4,663 units were absorbed in the first quarter. Throupe said that anomaly could reflect landlords filling units in the fourth quarter, but not updating their status until the first quarter. "It could have been some timing issues on when things went online," Throupe said. Developers are expected to add 8,000 to 10,000 new apartments to the market in 2016, not counting buildings with fewer than 50 units. Construction labor shortages could push some of those new units into 2017, Throupe said. To fill all those new units, landlords continue to boost concessions, such as offering the first month or two of rent free. As those newer and more expensive units get filled, that pushes median rents higher. Vacancy rates remain highest in the areas where the most new apartment construction is happening. In northwest Denver, the vacancy rate was 14.4 percent, while outlying Boulder County is at 10.3 percent and downtown Denver at 7.5 percent. But even in those areas, more tenants are moving into once-vacant units, causing vacancy rates to fall from where they were in the fourth quarter. The submarkets with the tightest vacancy rates include north Aurora at 0.9 percent, Boulder's university neighborhood at 1.7 percent and Wheat Ridge at 2.3 percent. Apartments were also in short supply in Denver's Washington Park and Lowry neighborhoods, which had vacancy rates of 2.5 percent and 3.2 percent, according to the report. Mounting job cuts in the oil and gas industry could start weighing more on apartment markets, especially the northern suburbs, starting this summer, Throupe said. But he expects the momentum to continue into the second quarter, normally a stronger time of the year for the apartment market. "In-migration is the engine at this point. If people keep coming, we are OK," he said. **(Denver Post)**

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Top 10 U.S. Economic Hot Spots

Where are the new prime commercial real estate hot spots? Economic data suggest that jobs are expanding to new locations in states that are fiscally healthy and in areas that offer more affordable lifestyles. RCLCO's Economic Hot Spot Map, which is based on a variety of trailing and forward-looking 12-month indicators, offers insights into regional growth patterns. When the map was first published in 2013, many of the high-ranking markets were technology and energy related. These areas subsequently experienced substantial job growth that led to some of the hottest commercial real estate markets in the U.S. The top 15 large markets in the 2013 rankings accounted for 58 percent of net office absorption and 64 percent of new office construction in the nation's 51 largest markets in 2014 and 2015. This year's map reveals that tech markets are expanding to more regions, while energy markets have fallen. Large resort-area markets like Orlando and Las Vegas are doing well, as are smaller ones like Bend-Redmond, Oregon; Hilton Head, South Carolina; and Napa, California. STEM (science, technology, engineering and math) workers continue to drive the economy; the five metropolitan statistical areas (MSAs) with the largest percentages of workers in STEM professions (San Jose, California; Washington, D.C.; Seattle; Denver and Raleigh, North Carolina) all rank in the top 20 large MSA hot spots. This year's top 10 economic hot spots, and their previous rankings:

1.Orlando-Kissimmee-Sanford, Florida, MSA (previously No. 10).

2.Seattle-Tacoma-Bellevue, Washington, MSA (2).

3.Portland-Vancouver-Hillsboro, Oregon-Washington, MSA (15).

4.Indianapolis-Carmel-Anderson, Indiana, MSA (21).

5.Atlanta-Sandy Springs-Roswell, Georgia, MSA (12).

6.Denver-Aurora-Lakewood, Colorado, MSA (7).

7.San Francisco-Oakland-Hayward, California, MSA (13).

8.Washington-Arlington-Alexandria, D.C.-Virginia-Maryland-West Virginia, MSA (11).

9.Austin-Round Rock, Texas MSA (5).

10.Charlotte-Concord-Gastonia, North Carolina-South Carolina, MSA (5). **(NAIOP)**

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Unico Purchases Last Puzzle Piece on Platte

After three deals in two years, a Seattle-based firm now has the keys to an entire block of historic buildings on piping-hot Platte Street. Unico this week bought the Big Chief Bottling Co. building at 1537 Platte St. for $5 million. The buy gives Unico control of the entire west side of Platte Street between 15th Street and the Denver Beer Co. An LLC managed by Louis Pappageorge and Christine Lapierre sold the building to Unico. Pappageorge bought it in 1994 for $285,000. The Big Chief Bottling Co. building totals about 10,000 square feet, according to Denver city records. It houses retail tenants Savory Spice Shop, Inside Scoop Creamery and Kindness Yoga. The deal comes about two months after Unico bought the Monkey Barrel bar building a block over on Platte Street for $2 million. Unico is planning an 82,000-square-foot office building at that site. No development plans were on file for the 1537 Platte St. site as of Tuesday afternoon. Unico has been gobbling up downtown Denver office buildings in the past couple of years. In 2014, the company spent $24.59 million to buy up the Root Building and the Zang Building on the 1500 block of Platte Street. Last year's Unico acquisitions included the Denver Club Building, 1430 Wynkoop Street, the Elephant Corral Building and a cluster of Cherry Creek buildings at Second Avenue and Josephine Street. **(BusinessDen)**

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Lenders Tighten CRE Borrowing Standards

Bank and CMBS loan originators tightened their lending standards for all types of commercial real estate loans during the first quarter, a marked reversal from the previous few years. A significant number of U.S. banks reported tightening standards for construction and land development loans and loans secured by multifamily properties, according to the latest Federal Reserve Senior Loan Officer Opinion Survey released this week. Additionally, a moderate number of U.S. banks reported tightening standards for loans secured by office, industrial, retail and hotel properties. While lenders were tightening their underwriting standards, demands for all three types of CRE loans continued to grow. In particular, the Fed's survey of senior loan officers found a moderate net fraction of U.S. banks reported increasing maximum loan size but tightening of their loan-to-value ratios. Another modest net fraction reported tightening debt-service coverage ratios. Survey respondents indicated that other loan terms remained basically unchanged, on net, over the past year. The Fed also asked bank loan officers about their responses to conditions in the CMBS markets over the past six months. A moderate net fraction of banks reported moderately increasing the volume of origination of CRE loans; while a significant fraction reported moderately decreasing the volume of CRE loan securitization. When asked about the anticipated large amount of CRE loans originated in 2006 and currently held in CMBS that will need to be refinanced over the next six months, a moderate net fraction of banks noted they expect standards for these refinancings to be somewhat tighter than standards they expect to apply to other CRE loans. The results of the survey, "were both important and largely inconclusive in most ways," said Christina Zausner, vice president, industry and policy analysis at CRE Finance Council. "After the Fed's warning to the market on Dec. 18, 2015, it is interesting to see that the survey results largely suggested that CRE bank lenders are reacting to a changing environment in a moderate fashion - many holding, some taking new cards and some folding." The upside to the tighter lending conditions has been an increase in the quality of newly issued CMBS loans, according to Morgan Stanley Research. "We believe this may lead to the outperformance of 2016 vintage deals relative to 2014 and 2015 vintages," Morgan Stanley Research analysts wrote. "We expect the collateral performance of 2016 vintage loans to be better than those securitized in 2015 and 2014 vintage deals." Originators are becoming more selective, the firm noted. The average size of conduit deals has declined by 16% in the first quarter. The weighted average LTVs declined by 3.3 percentage points to the lowest level since 2011, driven by an increase in the percentage of loans with LTVs less than 60%. **(National Real Estate Investor/Mark Heschmeyer)**

	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.64	.63	.28
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.79	1.73	2.24
30 YEAR TREASURY	2.62	2.56	2.98